

STATE OF CALIFORNIA

Public Utilities Commission  
San Francisco

**M e m o r a n d u m**

**Date:** May 2, 2005

**To:** The Commission  
(Meeting of May 5, 2005)

**From:** Delaney L. Hunter, Director  
Office of Governmental Affairs (OGA) — Sacramento

**Subject:** **SB 396 (Battin) Telecommunications: call pricing**  
As Amended April 7, 2005

**LEGISLATIVE SUBCOMMITTEE RECOMMENDATION:** Support

**SUMMARY:** The bill would require the Commission to prepare a report by July 1, 2007 detailing the following information:

- 1.) The impact of toll call pricing in the Coachella Valley and whether other options are needed;
- 2.) The need for additional steps to encourage incumbent and competitive carriers to provide innovative pricing plans; and
- 3.) The need for customer education or other efforts.

**DIGEST:** Existing law authorizes the Public Utilities Commission to regulate telephone corporations.

This bill would require the commission to examine the impact of toll call pricing in the Coachella Valley and to consider whether additional options are needed to serve that area. The bill would require the commission to consider whether any additional steps are necessary to encourage innovative pricing plans by incumbent and competitive carriers and would authorize the commission to consider whether customer education efforts or other measures that are in the public interest are necessary. The bill would require the commission to prepare and submit a report to the Legislature on or before July 1, 2007, regarding these issues. The bill would provide that its provisions would be repealed on January 1, 2008.

**DIVISION ANALYSIS/BACKGROUND (Telco):**

Extended area service (EAS) routes are “non-optional” subsidized toll arrangements provided by incumbent carriers.<sup>1</sup> EAS routes and the additional EAS incremental charge are imposed on all customers in a telephone exchange having EAS service against the will and choice of many of those customers.<sup>2</sup> Because customers who are not benefiting from EAS are nonetheless forced to subsidize customers that do benefit, the non-benefiting customers are deprived of choice and pay more for basic service than they should in relation to the cost of service. Customers who benefit from EAS are subsidized by those customers that do not benefit, and therefore have little incentive to seek alternatives that are economically more optimal (i.e., those alternatives with lower *real* costs). Therefore, more efficient toll service providers (competitors) are disadvantaged because customers benefiting from the EAS subsidy provided by other customers would not be expected to select a competitor’s more cost-efficient offerings. Moreover, incumbent carriers providing EAS benefit unfairly by receiving revenues for EAS services from those customers who do not use the service. EAS routes

EAS routes, by definition, are subsidized toll arrangements, and the subsidizing of competitive services has been found to be an impediment to competition. Decision (D.) 98-06-075, based on considerable evidence, reached this conclusion and remains the law in California.<sup>3</sup>

Pursuant to Commission Rule 47, petitioners have the opportunity to request a change to a Commission decision. A petitioner seeking to establish a new EAS route may take advantage of this opportunity by requesting modification of D.98-06-075. However, the petitioner would have to overcome possibly insurmountable obstacles posed by state and federal policies promoting fair and open competition, consumer choice, and prohibiting the cross-subsidization of intrastate inter-exchange telecommunications service. In D.98-06-075, the Commission found that the intra-LATA toll market in California was competitive, and concluded that creating new EAS routes was no longer a defensible policy.

SB 396 would require the Commission to examine whether other methods are needed to alleviate the problems of toll call pricing faced by places like the Coachella Valley, which have long struggled with toll call pricing and EAS issues.

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1 The cost of changing a long-distance toll route to a toll-free EAS route is paid by all affected customers (business and residence) through an additional incremental charge to their monthly local exchange rate. EAS routes were usually authorized by the Commission when a majority of the affected customers favored the arrangement. Even so, many customers object to paying more for basic telephone service (because of the added EAS increment) so that others’ toll service may be subsidized.

2 In 1970, the Commission recognized that EAS proposals were opposed by many affected subscribers, noting that as many as 33% of business customers opposed the Salinas-to-Chualar/Gonzales EAS route. (D.77311)

3 D.98-06-075, pp.8-9, FOF 17 & 18

**LEGISLATIVE HISTORY:**

(SB 1553) on the same issue was introduced by the same author on February 20, 2002. SB 1553 would have required the Commission to examine the impact of toll call pricing in the Coachella valley, consider whether additional options are needed to serve that area, and report to the Legislature by July 2004. It was passed by the Legislature but was vetoed by Governor Davis due to cost concerns.

**STATUS:**

SB 396 passed out of the Senate Energy, Utilities and Communications Committee on April 19, 2005 by a vote of 8-0 and will be heard in the Senate Appropriations Committee on May 2, 2005.

**SUPPORT/OPPOSITION (as of April 19, 2005)**

Support: Office of Ratepayer Advocates

Opposition: none

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**Date:** May 2, 2005

BILL NUMBER: SB 396      AMENDED  
BILL TEXT

AMENDED IN SENATE   APRIL 7, 2005

INTRODUCED BY      Senator Battin

FEBRUARY 17, 2005

An act ~~to add Section 1702.5 to the Public Utilities Code,~~ relating to telecommunications.

# LEGISLATIVE COUNSEL'S DIGEST

SB 396, as amended, Battin. Telecommunications:  
~~extended area service toll   call pricing   .~~

~~— Under existing law, the Public Utilities Commission has regulatory authority over public utilities and can establish its own procedures, subject to statutory limitations or directions and constitutional requirements of due process. The existing Public Utilities Act authorizes any person or corporation, and certain other entities, to bring a complaint before the commission claiming that a public utility is in violation of a provision of law or an order or rule of the commission, and imposes certain additional requirements upon the commission to entertain a complaint as to the reasonableness of any rates or charges of any gas, electrical, water, or telephone corporation. An existing decision of the commission prohibits the filing of new complaints to establish new extended area service routes in the state that allow the extension of the geographic reach of local toll free telephone calls.—~~

~~— This bill would, notwithstanding that decision of the commission, require the commission to allow the filing of complaint cases seeking to establish new extended area service routes within the state.—~~

Existing law authorizes the Public Utilities Commission to regulate telephone corporations.

This bill would require the commission to examine the impact of toll call pricing in the Coachella Valley and to consider whether additional options are needed to serve that area. The bill would require the commission to consider whether any additional steps are necessary to encourage innovative pricing plans by incumbent and competitive carriers and would authorize the commission to consider whether customer education efforts or other measures that are in the public interest are necessary. The bill would require the commission to prepare and submit a report to the Legislature on or before July 1, 2007, regarding these issues.

The bill would provide that its provisions would be repealed on January 1, 2008.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

~~— SECTION 1. Section 1702.5 is added to the Public Utilities Code, to read:~~

~~1702.5. (a) Notwithstanding the commission's Decision Number 98-06-075, the commission shall allow the filing of complaint cases seeking to establish new extended area service routes within the state.~~

~~(b) For the purposes of this section, "extended area service" means telephone service authorized in certain designated communities that extends the geographic reach of a local toll free calling area.~~

SECTION 1. *The Legislature finds and declares all of the following:*

(a) *Population and economic growth in the Coachella Valley have outpaced many other areas of the state as residents and businesses have migrated to the area to establish homes, employment, and other community infrastructure.*

(b) *The local interests of residents and businesses in the early communities in the Coachella Valley have expanded beyond those early communities to include community links throughout the valley.*

(c) *Historically, extended area service (EAS) plans were available, before the enactment of the federal Telecommunications Act of 1996, for customers located in some established communities of interest to mitigate toll call pricing. However, in Public Utilities Commission Decision 98-06-075, the commission determined that with the advent of competition for toll service, the public interest would be served by allowing the market to offer customers choices for toll call pricing.*

(d) *There have been concerns in the Coachella Valley about the impact of toll call pricing upon the greater community of interest and commerce in the valley.*

(e) *The commission should investigate the effectiveness of the competitive marketplace and consumer awareness in the Coachella Valley and consider options to address these concerns. The commission should consider what additional steps might be necessary to encourage the availability of innovative pricing options by incumbent and competitive carriers for customers concerned about toll call pricing in the Coachella Valley.*

SEC. 2. *The Public Utilities Commission shall examine the impact of toll call pricing in the Coachella Valley and shall consider whether additional options are needed to serve that area. The commission shall consider whether any additional steps are necessary to encourage innovative pricing plans by incumbent and competitive carriers. The commission may also consider whether customer education efforts or other measures that are in the public interest are necessary. The commission shall prepare and submit a report to the Legislature on or before July 1, 2007, regarding these issues.*

SEC. 3. *The Legislature finds and declares that due to unique circumstances relating to the Coachella Valley, a general statute cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution.*

SEC. 4.

*This act shall remain in effect only until January 1, 2008, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2008, deletes or extends that date.*

